Statement of Financial Accounting Standards No. 123 ("SFAS 123")
SFAS 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, provided that pro forma disclosures are made of net income or loss assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted under the 1998 Plan, which succeeds the 1990 Option Plan, during 1999, 1998 and 1997, using the Black-Scholes pricing model and the following weighted average assumptions:

	1999	1998	1997
Risk-free interest rate	[illegible]	[illegible]	[illegible]
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives, outstanding	4.8 years	4.4 years	5.0 years
Expected volatility	[illegible]	[illegible]	0.00%

To estimate lives of options for this valuation, it was assumed options will be exercised upon becoming fully vested. All options are initially assumed to vest. Cumulative compensation costs recognized in pro forma net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture. Because the Company's common stock was not yet publicly traded, the expected market volatility was assumed to be zero in 1997. In 1998 and 1999, the Company's common stock was not yet traded for an extended period of time, thus the expected market volatility was based on the stock prices of companies whose operations are similar to the Company's.

Actual volatility of the Company's common stock may vary. Fair value computations are highly sensitive to the volatility factor assumed; the greater the volatility, the higher the computed fair value of options granted.

The total fair value of options granted under the 1998 Option Plan and the ESPP was computed to be approximately $2,630,000, $1,406,000 and $499,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These amounts are amortized ratably over the vesting periods of the options or recognized at date of grant if no vesting period is required. Pro forma stock-based compensation, net of the effect of forfeitures, was $496,000, $417,000 and $232,000 for 1999, 1998 and 1997, respectively.

A summary of stock options under the 1998 Plan and the ESPP as of December 31, 1999, 1998 and 1997 and changes during the years then ended are presented below:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,339,880	$ 3.62	[illegible]	[illegible]	[illegible]	[illegible]
Granted	740,364	5.15	[illegible]	[illegible]	[illegible]	[illegible]
Exercised	(179,079)	2.56	[illegible]	0.54	[illegible]	[illegible]
Canceled	(245,301)	5.43	[illegible]	[illegible]	[illegible]	[illegible]
Outstanding at end of year	1,655,864	$ 4.15	[illegible]	[illegible]	1,106,810	[illegible]
Weighted average fair value of options granted	$ 3.36		[illegible]		[illegible]	

The following table summarizes information about the options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/99	Weighted Average Exercise Price
$0.12 — 0.40	184,509	1.19 years	$ .18	[illegible]	[illegible]
$0.75 — 3.00	334,217	5.33 years	1.98	[illegible]	[illegible]
$3.63 — 5.13	679,103	9.13 years	4.39	[illegible]	[illegible]
$6.00 — 7.50	425,351	8.13 years	6.59	[illegible]	[illegible]
$9.00 — 12.75	32,684	8.30 years	11.93	[illegible]	[illegible]
	1,655,864	7.21 years	$ 4.15	[illegible]	[illegible]

If the Company had accounted for its stock-based compensation plan in accordance with SFAS 123, the Company's net income from continuing operations would have been reported as follows:

	1999	1998	1997
Net income (loss) from continuing operations before extraordinary item:			
As reported	$ (1,062,000)	$ 3,880,000	$ 4,783,000
Pro forma	$ (1,373,000)	$ 3,619,000	$ 4,638,000
Basic net income (loss) per share from continuing operations before extraordinary item:			
As reported	$ (0.10)	$ 0.53	$ 2.17
Pro forma	$ (0.12)	$ 0.50	$ 2.09
Diluted net income (loss) per share from continuing operations before extraordinary item:			
As reported	$ (0.10)	$ 0.38	$ 0.54
Pro forma	$ (0.12)	$ 0.35	$ 0.53

(5) Long-term debt

At December 31, 1999 and 1998, long-term debt consisted of the following:

	December 31, 1999	December 31, 1998
Capitalized lease obligations for equipment due on various dates through December 1, 2002, minimum monthly payments in varying amounts, currently approximately $189,000 including imputed interest ranging from 7.75% to 9.50% per annum, collateralized by the related assets with a net book value of $3,838,000 and $4,273,000, respectively	$ 4,009,000	$ 4,409,000
Less — Current portion	(1,971,000)	(1,618,000)
	$ 2,038,000	$ 2,791,000

The Company prepaid its $4,000,000 note payable to Banc One Capital Partners II, LLC on June 30, 1998 and incurred a prepayment premium equal to 4% of the amount, totaling $160,000. In addition, the Company wrote-off the remaining debt discount related to the note payable of $1,282,000. The prepayment penalty and write-off of the debt discount totaling $1,442,000 were recorded as an extraordinary item, net of the related income tax benefit of $533,000.

Debt maturities of long-term debt as of December 31, 1999, are as follows:

	Capital Leases
[illegible]	[illegible]
2001	[illegible]
2002	[illegible]
	[illegible]
Less — Amount representing interest	[illegible]
[illegible]	[illegible]
Less — Current portion	(1,971,000)
	$ 2,038,000

(6) Income Taxes

The Company has operated in three countries, the United States, Canada and Australia. For income tax return reporting purposes, the Company has approximately $11,200,000 of net operating loss carryforwards and approximately $723,000 of tax credit carryforwards available to offset future federal taxable income or federal tax liabilities in the United States. The research and development credit and net operating loss carryforwards expire at various dates through 2019.

The Tax Reform Act of 1986 contains provisions which may limit the net operating loss and credit carryforwards available to be used in any given year upon the occurrence of certain events including significant changes in ownership of the Company. In accordance with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), a greater than 50% change in ownership of a company within a three-year period results in an annual limitation on the Company's ability to utilize its net operating loss carryforwards from tax periods prior to the ownership change.

Deferred income tax assets and liabilities at December 31, 1999 and 1998, were as follows:

	December 31, 1999	1998
Current		
Accrued liabilities and other	$ 640,000	$ 852,000
Deferred revenue	70,000	200,000
Net operating loss carryforwards	—	1,179,000
Less — Valuation allowance	(57,000)	(206,000)
	653,000	2,025,000
Noncurrent		
Depreciation differences	(1,057,000)	(901,000)
Net operating loss carryforwards	4,150,000	1,974,000
Tax credit carryforwards	723,000	675,000
Less — Valuation allowance	(393,000)	(244,000)
	3,423,000	1,504,000
	$ 4,076,000	$ 3,529,000

The Company recorded an income tax benefit of $568,000 in 1999 as it believes that it is more likely than not that the net operating loss generated will be utilized against future earnings. As of December 31, 1998, the Company reversed $1,689,000 of the valuation allowance on part of its deferred tax assets, as the Company believes it is more likely than not that such tax benefits will be realized. Approximately $533,000 of the income tax benefit in 1998 was allocated to the extraordinary loss on early extinguishment of debt.

Management believes the remaining tax assets of $450,000 as of December 31, 1999 relate to tax credits that do not satisfy the realization criteria set forth in SFAS No. 109 and has recorded a valuation allowance for such net tax assets.

	December 31, 1999	1998	1997
The components of the benefit for income taxes attributable to income from operations as of December 31, 1999, 1998 and 1997, were as follows:			
Current provision — state	$ —	$ —	$ 172,000
Deferred benefit, federal and state	(468,000)	(912,000)	(2,500,000)
Income tax benefit	$ (468,000)	$ (912,000)	$ (2,328,000)
The components of the provision (benefit) for income taxes attributable to income from discontinued operations as of December 31, 1999, 1998 and 1997, were as follows:			
Current provision — Foreign	$ —	$ —	$ 100,000
Deferred benefit — Federal	$ (100,000)	$ —	$ —
A reconciliation of income tax benefit computed by applying the federal income tax rate of 34% to income from continuing operations before income taxes as of December 31, 1999, 1998 and 1997, is as follows:			
Computed normal tax (benefit) provision	$ (631,000)	$ 700,000	$ 835,000
Tax effect of permanent differences and other	124,000	9,000	34,000
State tax, net of federal tax impact	(61,000)	68,000	113,000
Change in valuation allowance attributable to continuing operations	—	(1,689,000)	(3,310,000)
Income tax benefit	$ (568,000)	$ (912,000)	$ (2,328,000)
The benefit for income taxes is attributable to continuing operations and discontinued operations in 1999, 1998 and 1997 is as follows:			
Provision (benefit) attributable to continuing operations	$(468,000)	$ 777,000	$ 982,000
Change in valuation allowance attributable to continuing operations	—	(1,689,000)	(3,310,000)
Net benefit attributable to continuing operations	(468,000)	(912,000)	(2,328,000)
Benefit attributable to discontinued operations	(100,000)	—	(797,000)
Change in valuation allowance attributable to discontinued operations	—	—	897,000
Net provision attributable to discontinued operations	(100,000)	—	100,000
Total income tax benefit	$ (568,000)	$ (912,000)	$ (2,228,000)

(7) Commitments

The Company leases its office and research facilities and certain equipment under operating lease agreements which expire through November 2003. Rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately $1,370,000, $1,030,000 and $718,000, respectively. Future minimum lease obligations under these agreements are as follows:

2000	$1,580,000
2001	1,553,000
2002	1,552,000
2003	36,000
Total	$4,721,000

(8) Employee Benefit Plan

The Company has a 401(k) plan under which eligible employees may defer up to 15% of their compensation. The Company may make matching contributions and discretionary contributions if approved by the Board of Directors. For 1998 and 1997, no employer matching or discretionary contributions were made to the 401(k) plan. However, in February 1999, the Company's Board of Directors approved a matching contribution for employees, which was effective April 1, 1999. The Company matches 50% of employee contributions up to 6% of the employee's salary, not to exceed $1,000 in 1999 and 2000, respectively. Matching contributions will vest 35%, 70% and 100% for one, two and three years of service, respectively.

(9) Related Party Transaction

The Company provides data management and certain consulting services to and leases equipment from entities in which a stockholder of the Company has an ownership interest. A representative of the stockholder was a member of the Company's Board of Directors until December 2, 1999. The Company received net proceeds of approximately $6,979,000, $6,735,000 and $6,959,000 in 1999, 1998 and 1997, respectively, pursuant to these agreements. Amounts due to the stockholder under the capital lease agreements net of amounts due to the Company for services rendered as of December 31, 1999 and 1998 were $3,262,000 and $3,962,000, respectively. The leases have interest rates ranging from 7.75% to 9.50%, require monthly payments and have expiration dates varying through October 2002.

(10) Reportable Segments and Major Customers

Reportable Segments

The Company has two reportable segments, data management services and licenses and implementation services. The Company measures its reportable segments based on revenue for each segment and costs directly related to each segment. General and administrative, sales and marketing and other costs are not measured by segment. Data management services include the provisioning of an outsourcing solution for 9-1-1 data management to customers, including ILECs, CLECs, wireless carriers and state and local governments. Licenses and implementation services include the licensing, customization and installation of the Company's 9-1-1 software solutions. Substantially all of the Company's customers are in the United States.

These segments are managed separately because the nature of and resources used for each segment is unique. Data management services include ongoing data management and monitoring of systems and other enhanced services. Under data management services, the customer's data is transferred to the Company's systems and the Company owns the systems used to manage the data. Under licenses and implementation services, the customer performs data management and systems monitoring activities. The customer also owns the hardware, licenses the Company's software and maintains the data on its internal systems under this segment.

Revenue and costs are segregated in the Statement of Operations for the two reportable segments. The Company does not segregate assets between the segments as it is impractical to do so.

Major Customers

Revenue from certain customers exceeded 10% of total revenue for the respective year as follows: 27%, 27% and 26% in 1999; 27%, 25% and 21% in 1998 and 30%, 29% and 22% in 1997. Contracts with certain of these customers have a ten-year duration and provide for fixed monthly fees based upon the number of subscriber records managed and upon the services selected by the customer. All of these customers are in the Company's data management services segment.

(11) Legal Matters

The Company is subject to various claims and business disputes in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management anticipates that the ultimate outcome of the issues will not have a material impact on the financial statements. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. The Company plans to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. The Company believes that the services it provides are within the scope of the existing regulations and that any challenges to the regulations will be decided in the Company's favor. However, if the regulations are challenged and are not decided in the Company's favor, the Company may be prohibited from expanding its services to certain markets.

Report of Independent Public Accountants

To the Board of Directors and Stockholders of SCC Communications Corp.:

We have audited the accompanying balance sheets of SCC Communications Corp. (a Delaware corporation) as of December 31, 1999 and 1998, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCC Communications Corp. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Denver, Colorado

January 21, 2000

Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the Nasdaq National Market under the symbol "SCCX." We commenced our initial public offering of the common stock on June 24, 1998 at a price of $12 per share. Prior to such date, there was no public market for the common stock. The following table sets forth the high and low bid prices for the common stock for the periods indicated, as reported on the Nasdaq National Market.

	HIGH	LOW
June 24, 1998 through June 30, 1998	$14.00	$12.00
Quarter ended September 30, 1998	16.00	2.88
Quarter ended December 31, 1998	5.56	2.88
Quarter ended March 31, 1999	8.38	3.00
Quarter ended June 30, 1999	5.00	3.00
Quarter ended September 30, 1999	7.13	4.00
Quarter ended December 31, 1999	7.09	5.00

As of February 29, 2000, there were approximately 173 holders of record.

We have not paid any cash dividends on our capital stock since our inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. Certain covenants contained in our line of credit agreement restrict the payment of dividends without the lender's prior consent. Payments of future dividends, if any, will be at the discretion of our Board of Directors, subject to the restrictions discussed above, after taking into account various factors, including our financial condition, operating results, cash needs and expansion plans.

Corporate Information

George K. Heinrichs
President and Chief Executive Officer
SCC Communications Corp.

Stephen O. James
Independent Executive Business Consultant

David Kronfeld
Manager
JK&B Management L.L.C.

Mary Beth Vitale
President and Chief Executive Officer
Westwind Media

Winston J. Wade
Former Chief Executive Officer
Media One Malaysia

Darrell A. Williams
Chief Investment Officer
Telecommunications Development Fund

George K. Heinrichs
President and Chief Executive Officer

Carol L. Nelson
Chief Financial Officer

Norwest Bank Minnesota, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, MN 55164-0854
Tel: 800.468.9716
Fax: 651.450.4033

Arthur Andersen LLP
Denver, Colorado

Hale and Dorr LLP
Boston, Massachusetts

SCC Communications Corp.
6285 Lookout Road
Boulder, CO 80301-3343
Tel: 303.581.5600
Fax: 303.581.0900
Web: www.scc911.com

For further information on SCC, additional copies of this report or other financial information filed with the Securities and Exchange Commission, please contact:

Investor Relations
SCC Communications Corp.
6285 Lookout Road
Boulder, CO 80301-3343
Tel: 303.581.5600
Fax: 303.581.0900
Email: cnelson@sccx.com

SCC Communications Corp.'s common stock trades on the Nasdaq Stock Market® under the symbol SCCX.

Footnotes

1. National Emergency Number Association
2. SCC Communications Corp.
3. Strategis Group as quoted in *1999 Phone Facts*, United States Telecom Association
4. Cellular Telephone Institute Association
5. Cellular Telephone Institute Association
6. Strategis Group

SCC News

NEWS RELEASE

For More Information:

Linda Hobaugh SCC Communications Corp. (303) 581-5600 lhobaugh@sccx.com	Jill Hollingsworth JohnstonWells (303) 623-3366 jhollingsworth@johnstonwells.com	Shiraz Moosajee WINfirst 303-407-1617 shiraz@winfirst.com

WINfirst Selects SCC Communications to Provide 9-1-1 Service to Customers

FOR IMMEDIATE RELEASE

Boulder, Colo. (December 7, 2000)--SCC Communications (Nasdaq: SCCX), the world's leading provider of 9-1-1 data management services, announced today that WINfirst has selected SCC's TelConnectSM package to provide enhanced 9-1-1 (E9-1-1) service to WINfirst residential customers. The TelConnect system will allow WINfirst customers access to immediate and reliable 9-1-1 service.

Based in Denver, WINfirst is building an entirely new fiber-to-the-home (FTTH) residential network that will provide high bandwidth for voice, video and data applications. WINfirst has already received regulatory approval to build networks in Sacramento and San Diego, California; Austin, Dallas, Houston and San Antonio, Texas; and has received a temporary permit pending full approval in Portland, Oregon. Combined, WINfirst will provide its service to more than 3.2 million homes. WINfirst is pursuing regulatory approval in San Francisco, Oakland, California, Los Angeles, Seattle, Phoenix and Nevada.

WINfirst, which signed a three-year contract with SCC, will now benefit from the leading-edge TelConnect suite of 9-1-1 data management services. TelConnect enables integrated communications providers (ICPs) and competitive local exchange carriers (CLECs) to cost-effectively outsource the complex job of meeting 9-1-1 data management requirements.

"WINfirst is committed to providing its customers with the highest quality service-and that includes 9-1-1 emergency service. This is an essential service and we wanted to work with the country's leading and most experienced provider of 9-1-1 data management services," said Frank Casazza, WINfirst president and chief operating officer. "We realize the critical importance of 9-1-1 service. It can be a matter of life and death-which is why we selected SCC to provide our customers with the most accurate and reliable access to 9-1-1 emergency service available."

"TelConnect will handle all of WINfirst's data validation and formatting, error analysis and resolution and delivery of the data to the appropriate public safety agencies," said Mark Scott, vice president and general manager of SCC's CLEC business unit. "And while our experts manage these time-consuming but critical tasks, WINfirst can focus on expanding its markets and services."

About SCC
SCC Communications Corp. (Nasdaq: SCCX) is the leading provider of 9-1-1 data management services to incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs), integrated communications providers (ICPs) and wireless carriers in the United States. SCC manages the data that allows the routing and delivery of 9-1-1 calls to the appropriate answering point along with accurate information about the caller's location. SCC provides 9-1-1 services to 20 leading wireless telecommunications carriers and 38 leading wireline telecommunications carriers. SCC currently manages the records for approximately 99.4 million wireline and wireless telephone subscribers, including 4.8 million CLEC subscribers, and more than 2.5 million revenue-generating wireless subscribers. The company also develops innovative, value-added information technology systems and software products for the location-based services market. To receive SCC press releases and company updates via e-mail, please register at the company's Web site: http:/www.scc911.com.

About WINfirst
WINfirst is building a new fiber-to-the-home residential network using fiber-optic technology in conjunction with Ethernet networking standards to break the last-mile bottleneck. WINfirst will provide the highest quality of customer service and choice, the convenience of one-stop shopping for Internet, cable TV and telephone service and the value of a bundled-service offering. For more information about WINfirst, visit http://www.winfirst.com.